

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

NOTICE OF MARKET-DOMINANT  
PRICE ADJUSTMENT

Docket No. R2012-3

RESPONSE OF UNITED STATES POSTAL SERVICE  
TO CHAIRMAN'S INFORMATION REQUEST NO. 2  
(November 9, 2011)

The Postal Service hereby files its responses to questions 1-6 of Chairman's Information Request No. 2, issued on November 2, 2011. Each question is stated verbatim, and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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Periodicals

1. In the Preface to Library Reference USPS-LR-R2012-3/3, the Postal Service states the following: “[t]he calculations assume no migration to the new Mixed Area Distribution Center (MADC) pallet price. Although the Postal Service recognizes that pricing relationships can move mail volumes to more (or less) efficient preparation, no data are available at this point to quantify the impact of the new offering. In any event, net revenue leakage would have lowered the overall percentage change, so assuming no migration is a conservative approach with respect to not exceeding the price cap.”

Rule § 3010.23(d) states “[t]he Postal Service shall make reasonable adjustments to the billing determinants to account for the effects of classification changes such as the introduction, deletion, or redefinition of rate cells.”

- a. Please confirm that the Postal Service anticipates usage of this price offering after its introduction.
- b. Please provide Periodicals Billing Determinants that include an estimate of usage in line with the guidance of rule § 3010.23(d).
- c. Has the Postal Service developed a bottom-up cost estimate for origin-entered mixed ADC pallets? If so, please provide the cost estimate and the workpapers used to develop the cost estimate.
- d. Please provide the “Price as Percent of Cost” for origin-entered mixed ADC pallets.
- e. Please confirm that the proposed price for origin-entered mixed ADC pallets is \$3.365, and the proposed price for origin-entered ADC pallets is \$33.375.
  - i. Will mailers who enter ADC pallets be eligible for the mixed ADC pallet price?
  - ii. What changes in the makeup of a mailing will be required for mailers to shift from ADC pallets to mixed ADC pallets?
- f. The Mail Classification Schedule language contained in Attachment A of the Postal Service’s Notice contains the proposed bundle prices for Periodicals Outside County at page 48.
  - i. Please confirm that there is no price for Carrier Route bundles entered in Mixed ADC containers.
  - ii. Will mailers be allowed to include Carrier Route bundles in mixed ADC pallets? If so, please provide the price that will be charged for Carrier Route bundles contained in mixed ADC pallets.

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**RESPONSE:**

- a.-b. The Postal Service is offering the new origin-entered Mixed ADC pallet price to provide additional flexibility to current and future customers. No customer is required to change from the existing price structure. Thus, Commission Rule § 3010.23(d) does not require any billing determinants adjustment. Consistent with Commission Rule § 3010.23(b), and because the Postal Service does not know the demand for the new option, the Postal Service has not forecast expected volumes.
- c.-d. The Postal Service has not measured all the relevant parameters necessary to incorporate the MADC pallet costs into the bottom-up cost models. Therefore, "Price as Percent of Cost" for origin-entered Mixed ADC pallets is not available. Specifically, the Postal Service has not measured the average flow-path of a Mixed ADC pallet entered at either an originating SCF or originating NDC because these pallets do not currently exist. However, because these flow paths are likely to be simple and typically involve a single cross-dock from the originating facility to the ADC serving the entry facility, the Postal Service would expect the modeled costs of Mixed ADC pallets to be similar to those of ADC pallets. Because a Mixed ADC pallet entered at an (origin) ADC will incur operations very similar to those applied to an ADC pallet entered at the

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destination ADC, the modeled costs of an Origin-ADC-entered Mixed ADC pallet will have modeled costs that are very similar to those of a Destination-ADC-entered ADC pallet. The modeled cost of an OSCF or ONDC Mixed ADC pallet will likely have similar modeled costs to an ADC pallet entered at the Destination NDC, since both pallets are similar in that they require transportation to a relatively nearby processing facility where they will be opened and the contents distributed.

- e. Confirmed.
  - i. No. The lower price for an Mixed ADC pallet compared to an ADC pallet will virtually always be more than offset by (a) higher prices for every bundle on the pallet, (b) a probable net increase in piece-and-bundle postage as a result of merging what might have been Carrier Route bundles into one or more 5-digit bundles, and (c) the fact that dropship discounts are not available for Mixed ADC containers.
  - ii. This would only be an option when the standards do not require ADC pallets. For example, a mailer does not have an option if a mailing meets the criteria of an ADC pallet required at 500 pounds of mail to an ADC. This is in contrast to the situation when the mailer has 250 pounds to an ADC (or 100 pounds if dropped at an ADC). The mailer may then make an ADC pallet, but is not

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required to do so. Mailers are likely to consider all price effects of doing or not doing so before making that choice. For example, even though the pallet price is lower for the Mixed ADC pallet itself, the bundle prices on ADC pallets are lower than on Mixed ADC pallets. Also, mail on Mixed ADC pallets may receive slower service.

- f.
  - i. Confirmed.
  - ii. Bundle prices do not depend on whether the container is a sack or a pallet. Instead, they depend on how many bundle handlings are needed from the point the bundle leaves its container to the point it is opened for piece distribution. The greater the difference between the container and bundle presort levels, the more bundle handlings are needed and the higher the bundle price. A Carrier Route bundle in a Mixed ADC container would need multiple handlings before reaching the delivery unit. Bundle handlings are costly and also tend to degrade bundle integrity. For these reasons, Carrier Route bundles have not been allowed in Mixed ADC sacks, and will not be allowed in Mixed ADC pallets.

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First-Class Mail

2. Please confirm that reducing the discount for First-Class AADC Automation Letters would impede the efficient operations of the Postal Service.

**RESPONSE:**

Confirmed. As stated in the United States Postal Service Notice of Market-Dominant Rate Adjustment (page 35):

First, the Postal Service currently has excess mail processing capacity and can absorb extra workload in the incoming mail processing operations. By concentrating as much volume as possible in those operations, efficiency may be improved. Thus, giving an added incentive to customers to move from Mixed AADC (and therefore, out of outgoing sortation operations) into AADC and 3-Digit (incoming operations) supports a sensible strategy of increasing efficiency.

The network optimization plan involves ongoing evaluation of the most appropriate sortation, as discussed above. This could result in a restructuring of the sortation levels at the "plant" (currently AADC and 3-digit) level. To the extent the Postal Service begins to consolidate and realign facilities, it will be least disruptive if the number of processing steps (and facilities) is minimized. Therefore, encouraging additional worksharing (sortation to AADC or 3-digit rather than mixed-AADC) will not only enhance efficiency, but also maximize the Postal Service's ability to meet service commitments.

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3. The Postal Service has decreased the 5-digit Automation Letter discount. In support, the Postal Service states that it is retaining the 10 cent differential between the First-Class single-piece rate and the 5-digit Automation Letter rate.<sup>1</sup>
- a. Please explain the significance of the 10 cent differential between the price for 5-digit Automation Letters compared with single-piece letters, especially given that the corresponding differential were 9.6 cents and 10.5 cents in Docket Nos. R2008-1 and R2009-2, respectively.
  - b. Please explain how reducing the current discount provides an efficient price signal that incentivizes the least costly sorter to sort mail to the 5-digit level rather than the 3-digit level.

**RESPONSE:**

- a. The statement regarding the retention of a 10-cent differential between the single-piece letter rate and 5-Digit Automation Letter rate, is intended to point out that even though the discount for AADC/3-Digit Presort level exceeds its avoided cost compared to the benchmark, the overall discount between the least and most presorted piece remains the same.
- b. The process of rate design requires the balancing of numerous criteria. Specifically, the Postal Service must consider the effect on customers of price changes, the overall price change in relation to the price cap, and the efficient operation of the postal system. The “workshare requirement” of section 3622(e) requires that workshare discounts not exceed the costs

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<sup>1</sup> United States Postal Service Notice of Market-Dominant Price Adjustment, October 18, 2011, at 36 (Notice).

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avoided unless certain statutory exceptions apply. It does not require that discount be set as close to 100 percent of costs avoided as possible.

The Commission's established methodology requires consideration of the 5-digit price as compared to the 3-digit price in evaluating compliance with section 3622(e). However, as the Postal Service has discussed in previous price changes, the "incremental" approach to evaluating workshare discounts does not necessarily present a full view of the situation. The "cumulative" discount offered as compared to some benchmark reflecting minimum sortation is also valuable. For example, another factor in the evaluation of whether the 5-digit discount has changed the relative total incentive to presort to the 5-digit level, is consideration of the total discount between the most and least presorted piece. While the pending rulemaking in Docket No. RM2010-13 has determined that the benchmark is a subset of single-piece letters, the required benchmark has not yet been defined. The 10-cent rate differential noted between the 5-digit and single-piece prices indicates that the incentive to presort to 5-digit as compared to not presorting has not changed.



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4. Among the Mail Classification Schedule changes are: Adding Package Intercept service as an optional feature for First-Class Mail, Standard Mail, and Package Services. Notice at 50. Package Intercept service has not been added as an optional feature to any Standard Mail product in Attachment A. Please update Attachment A to reflect this optional feature.

**RESPONSE:**

Package Intercept service will not be available for Standard Mail. The Notice at page 50 will be corrected.

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Special Services

5. Please refer to Library Reference USPS-LR-5.
- a. Several worksheets include "ACY Licensing rates." See, e.g., the worksheets "City State" and "Delivery Statistics. Please answer the following:
    - i. What is ACY licensing?
    - ii. Where is ACY licensing identified in the Mail Classification Schedule?
  - b. Please explain why the proposed annual rate used in the worksheet titled "P.O. Box" for Reserve Numbers is \$84.00 when the proposed Mail Classification Schedule language indicates that the proposed annual rate for a Call Number Reservation is \$42.00. If the rates used in the worksheet are incorrect, please provide a revised worksheet.

**RESPONSE:**

- a. ACY (AIS Copy) Licensing refers to the fees charged for licensing additional copies of certain Address Management databases. The fees are presented in the AMS Price Table for Single Issues or Additional Copies, at the end of Mail Classification Schedule section 1515.2.
- b. The \$84 figure is an error. A correction is included in the errata for USPS-R2012-3/5, filed yesterday.

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6. The following questions refer to the worksheet titled "Change Calc." in Library Reference USPS-LR-5.
- a. Please refer to the "Z4 (ZIP 4) Change" worksheet and explain why the totals for the current (\$25,500.00) and the proposed (\$26,322.58) revenues are not used in the Postal Service's worksheet titled "Change Calc."
  - b. Please refer to the "ZIP Move" worksheet and explain why the totals for the current (\$7,134.82) and the proposed (\$7,474.78) revenues are not used in the Postal Service's worksheet titled "Change Calc."
  - c. Please refer to the "DMM (Domestic Mail Manual) Labeling List" worksheet and explain why the totals for the current (\$6,690.00) and the proposed (\$6,690.00) revenues are not used in the Postal Service's worksheet "Change Calc."
  - d. If errors have occurred in the "Change Calc" worksheet, please provide an updated worksheet.

**RESPONSE:**

- a-d. In each situation the addition of ACY Licensing fees should have resulted in a change in the formula that pulls the revenue from the individual product worksheets to the "Change Calc" worksheet. A revised "Change Calc" worksheet is included in the errata to USPS-R2012-3/5 filed yesterday.